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Department of State

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DEPARTMENT OF STATE A/CDC/MR
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C O R R E C T E D C O P Y (TO TEXT NBRD PARS THREE, FOUR, AND FIVE)

SUBJ: LIBYAN OIL NEGOTIATIONS AND COMPANY STRATEGY

REF: STATE 1810

1. EMBOFF TOOK ADVANTAGE OF PREVIOUSLY SCHEDULED APPOINTMENT WITH PETROLEUM UNDER SECRETARY QIBLAWI TO PROBE LARG'S TIMING AND DEMANDS FOR COMING OIL NEGOTIATIONS AND TO ENCOURAGE LARG TO GIVE COMPANIES TIME IN THEIR BILATERAL TALKS. ALSO TO DEVELOP POSITION RESPONSIVE TO OPEC RESOLUTIONS. OUR ASSESSMENT FROM TALKS WITH QIBLAWI AND SEVERAL COMPANY REPS IS THAT SITUATION APPEARS EVEN LESS PROMISING THAN WHEN POSTED PRICE TALKS OPENED YEAR AGO. LARG APPEARS CONFIDENT AND RESOLUTE-- [redacted] B1
[redacted] LARG HAS CLEARER FORMULATION OF WHAT IT WANTS THAN WHEN IT OPENED TALKS WITH COMPANIES LAST YEAR-- [redacted] B1-
LARG APPEARS TO BELIEVE THAT TACTICS IT EMPLOYED SUCCESSFULLY LAST FALL WILL WORK AGAIN-- [redacted] B1

2. OCCIDENTAL AND BUNKER HUNT ARE TO MEET LARG NEGOTIATORS JAN 9 FOR OPENING ROUND. COMPANIES EXPECT TO BE GIVEN LARG'S DEMANDS IN DETAIL AND TO BE GRANTED ONE WEEK OR LESS IN WHICH TO RESPOND. IN COMMENTING TO EMBOFF ON TIMING, QIBLAWI WOULD ONLY SAY THAT LARG HOPED TO COMPLETE NEGOTIATIONS RAPIDLY AND IT WAS TO EVERYONE'S ADVANTAGE THAT IT DO SO. WE CONCLUDE LARG HOPES TO FOLLOW OXY AND HUNT'S INITIAL RESPONSE WITH SHORT, SHART SERIES OF MEETINGS IN

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WHICH MAXIMUM PRESSURE CAN BE EXERTED TO REACH AGREEMENT ON ITS TERMS, AND THEN REPEAT CYCLE WITH OTHER COMPANIES AS WAS DONE LAST FALL. IN THIS SCENARIO, WE WOULD EXPECT OASIS OWNERS, AGAIN, TO BE NEXT. WHETHER LARG'S DECISION TO MOVE ON COMPANIES AT THIS TIME IS OPEC-COORDINATED PLAN TO WHIPSAW COMPANIES IN SIMULTANEOUS NEGOTIATIONS IN TRIPOLI AND TEHRAN WE DO NOT KNOW. CIRCUMSTANCES SUGGEST THIS MAY BE CASE, BUT QIBLAWI PRESENTED CASE FOR LIBYAN DEMANDS IN TERMS OF LIBYAN SITUATION ALONE.

3. EXPANDING ON JALLUD'S INTRODUCTION OF LIBYAN DEMANDS (TRIPOLI 008), QIBLAWI DESCRIBED THEM AS FOLLOWS:

A. TAX RATES ABOVE 50 PERCENT ARE INTENDED ONLY TO RECOVER RETROACTIVE INCOME FROM POSTED PRICE INCREASE. TAX RATES NOW MUST BE RAISED BY ADDITIONAL FIVE PERCENT TO CONFORM WITH AGREEMENTS IN GULF AND OPEC RESOLUTIONS. COMPANIES WISHING TO LIMIT TAX RATE TO 55 PERCENT, MAY STILL PAY RETROACTIVITY IN CASH.

B. TWO-PART RECOGNITION OF LIBYA'S LOCATIONAL ADVANTAGE: 1) SUEZ ALLOWANCE LOOSELY BASED UPON ARGUMENTS AND FORMULA DISCUSSED DURING 1970 PRICE TALKS, WHICH WOULD ADD AROUND 16 CENTS TO POSTED PRICE, EFFECTIVE BNE 1967, AND RISE TO AROUND 35 CENTS AS OF JAN 1971 AS OPEC DISCOUNTS (INCLUDING HALF CENT MARKETING ALLOWANCE) ARE ELIMINATED; 2) FURTHER ADJUSTMENT--QIBLAWI SAID ONLY "FEW CENTS"-- IN POSTED PRICE TO CLOSE GAP LIBYA CONTENDS WAS OPENED WHEN OTHER EXPORTERS OF SHORT-HAUL CRUDE WERE GIVEN PRICE INCREASES IN SEPTEMBER.

C. REINVESTMENT BY COMPANIES OF PERCENTAGE OF THEIR EARNINGS IN LIBYA. QIBLAWI SAID THIS WAS MOST IMPORTANT OF LARG'S DEMANDS AND THAT PERCENTAGE HAD NOT BEEN FINALLY DETERMINED BUT WOULD BE BEFORE SATURDAY MEETING. COMPANIES WITHOUT EXPLORATION PROSPECTS ADEQUATE TO ABSORB INVESTMENT FROM NEW COMMITMENT COULD INVEST IN DEVELOPMENT PROJECTS OUTSIDE OIL SECTOR, BUT BULK OF INVESTMENT WAS INTENDED FOR EXPENDITURE ON EXPLORATION FOR NEW HYDROCARBON RESERVES AND FOR INSTALLATION OF SECONDARY RECOVERY SYSTEMS FOR PRODUCING RESEVOIRS. COMPANIES' INVESTMENT IN PRODUCTION EQUIPMENT FOR PRODUCING FIELDS WOULD NOT COUNT.

D. ACCELERATION OF TAX AND ROYALTY PAYMENTS TO MONTHLY BASIS--WHICH QIBLAWI TERMED MINOR ADJUSTMENT ALREADY ACCOMPLISHED IN SOME OTHER OPEC COUNTRIES.

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E. COMPANIES TO BEAR PRO-RATA SHARE OF SUPPLYING LIBYA'S PETROLEUM REQUIREMENTS NOT ONLY OF CONSUMER PRODUCTS BUT ALSO INDUSTRIAL FUELS AND NATURAL GAS FOR PETROCHEMICAL FEEDSTOCK.

4. DRAWING ON REFTEL, EMBOFF OBSERVER DEMANDS QIBLAWI HAD OUTLINED WERE BROADER THAN WHAT MIGHT HAVE BEEN EXPECTED FROM JALLUD'S STATEMENT AND WERE CERTAIN TO POSE COMPLEX PROBLEMS WHICH WOULD NEED CAREFUL STUDY. EMBASSY HOPED COMPANIES WOULD [illegible] THAT OPPORTUNITY. FURTHER, USG AWARE THAT OIL COMPANIES ARE [illegible] SERIOUS CONSIDERATION TO OPEC RESOLUTIONS, AND WE HOPED [illegible] COULD NOT ACT PRECIPITOUSLY TO MAKE ADOPTION OF FORTHCOMING POSITION BY COMPANIES MORE DIFFICULT IN THAT CONTEXT. QIBLAWI DID NOT RESPOND DIRECTLY, BUT OBSERVED THAT FEW YEARS AGO COMPANIES WOULD HAVE IGNORED THESE OPEC RESOLUTIONS AND WERE UNABLE TO DO SO TODAY AT LEAST PARTIALLY BECAUSE OF ACTIONS LIBYA HAS TAKEN OVER PAST YEAR.

5. COMMENT: WE ARE NOT AT ALL CERTAIN THAT APPEAL FOR ALLOWING COMPANIES TIME TO CONSIDER LARG'S DEMANDS HAD DESIRED IMPACT ON QIBLAWI, [redacted] (S) NEXT STEP MIGHT BE FOR AMBASSADOR TO MAKE DEMARCHE TO JALLUD, WHO, AGAIN, WILL LEAD LARG NEGOTIATORS. [redacted] (B5)

WE WILL WAIT FOR DEPARTMENT'S REPLY AND REACTION BEFORE TAKING FURTHER ACTION. GP-3.
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